



National
Qualifications
2026

2026 Accounting

Advanced Higher

Question Paper Finalised Marking Instructions

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General marking principles for Advanced Higher Accounting

Always apply these general principles. Use them in conjunction with the detailed marking instructions, which identify the key features required in candidates' responses.

- (a) Always use positive marking. This means candidates accumulate marks for the demonstration of relevant skills, knowledge and understanding; marks are not deducted for errors or omissions.
- (b) If a candidate response does not seem to be covered by either the principles or detailed marking instructions, and you are uncertain how to assess it, you must seek guidance from your team leader.
- (c) Always follow through consequentiality subsequent to a calculative error and give credit for any errors in subsequent calculations or working.
- (d) Mark scored out or erased working which has not been replaced where still legible. However, if the scored out or erased working has been replaced, mark only the work which has not been scored out.
- (e) For **describe** questions, candidates must make a number of relevant factual points, which may be characteristics and/or features, as appropriate to the question asked. These points may relate to a concept, process or situation. Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question

- award **1 mark** for each relevant factual point
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (f) For **explain** questions, candidates must make accurate relevant points that relate cause and effect and/or make relationships clear. These points may relate to a concept, process or situation. Candidates may provide straightforward points of explanation or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question

- award **1 mark** for each relevant point of explanation
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (g) For **justify** questions, candidates must give good reasons for a cause of action or decision.
- Up to the total mark allocation for this question

- award **1 mark** for each relevant statement or opinion
- award marks for any further development of a relevant statement or opinion.

- (h) For **analyse** questions, candidates must demonstrate their ability to identify, describe and explain relevant parts and the relationships between the parts and/or the whole. Candidates must be able to draw out and relate any implications and/or analyse data.

Up to the total mark allocation for this question

- award **1 mark** for each relevant point of analysis
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (i) For **discuss** questions, candidates must make points that communicate issues, ideas or information about a given topic or context that make a case for and/or against. Candidates do not always need to give both sides of the debate in their response.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of knowledge that is clearly relevant
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (j) For **compare** questions, candidates must demonstrate knowledge and understanding of the similarities and/or differences between, for example, things, methods or choices. Candidates may include relevant theoretical concepts in their points.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of analysis
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (k) For **evaluate** questions, candidates must demonstrate knowledge and understanding of the similarities and/or differences between, for example, things, methods or choices. Candidates may include relevant theoretical concepts in their points.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of evaluation
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

Question	Expected response(s)				Max mark	Additional Guidance
1. (a)	BAKER PLC				19	
	INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER YEAR 5					
		£000	£000			
	Opening Retained Earnings		11,200	1		
	Less Cost of Sales		4,684	*		
	GROSS PROFIT		6,516			
	Less Administration Expenses	2,130		*		
	Less Distribution Expenses	3,119	5,249	*11		
	PROFIT FROM OPERATIONS		1,267			
	Other Income (78 + 20)		98	2		1 for Profit on Sale (150 - 130) and 1 Investment Income
	Other Expenses		- 100	1		
	PROFIT BEFORE FINANCE COSTS		1,265			
	Finance Costs		- 228	2		1 for Finance Cost $12\% \times 2,000 = (240)$
	PROFIT BEFORE TAX		1,037			1 for Finance Income: Interest Received 12
	Taxation		702	1		
	PROFIT FOR THE YEAR		335			All labels & heading (in bold) present, arithmetic accuracy and no extraneous items
	Labels/no extraneous/arithmetic correct (L/E/A) 1					

Question	Expected response(s)				Marks	Additional Guidance					
1. (a)	WORKING NOTES										
		COST OF SALES	ADMIN	DISTRIBUTION							
	Opening Inventory	480			*						
	Opening Retained Earnings	4,100			*						
		4,580									
	less Closing Inventory	490			*1		1 for all 3				
		4,090									
	Distribution Costs			750	*						
	Wages & Salaries (2,530 + 210) 1	274	822	1,644	1	2,740					
	General Expenses (1,000/5*4) 1	320	320	160	1	800					
	Marketing Costs			425	*						
	Directors' Remuneration		895		*2		2 for Distribution costs, marketing costs and directors' remuneration				
	Net Discounts		- 10		1						
	Audit Fee		68		1						
	Depreciation: Plant & Machinery		35	140	1	175	(2,300-300)-(420-170)x10% (1)				
		4,684	2,130	3,119							

Question	Expected response(s)				Max mark	Additional Guidance
1. (b)	BAKER PLC				2	
	STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED 31 DECEMBER YEAR 5					
		£000				
	Opening Retained Earnings	3,060	*			
	add Profit for the Year	335	*1			
		3,395				
	less Dividends paid	300	1			
	Closing Retained Earnings	3,095				

Question	Expected response(s)				Max mark	Additional Guidance				
1. (c)	BAKER PLC				19					
	STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER YEAR 5									
		£000	£000	£000						
	Opening Retained Earnings									
	Tangible Assets			10,215	4					
	Intangible Assets (300 - 100)			200	1					
	Investments			1,250	1					
				11,665						
	CURRENT ASSETS									
	Inventory		490		*					
	Trade Receivables		900		*1 for both	1 for both Inventory and Trade Receivables				
	Other Receivables		200		**					
	Cash & Cash Equivalents (510 (1) + 150 (1))		660	2,250	2					
	TOTAL ASSETS			13,915						
	CURRENT LIABILITIES									
	Trade Payables	670			**1 for both	1 for both Other Receivables and Trade Payables				
	Other Paybles (210 + 68)	278			1					
	Debenture Finance Cost due	90			1					
	Corporation Tax due	702	1,740		1					
	NON CURRENT LIABILITES									
	12% Debentures		2,000		1					
	TOTAL LIABILITIES			3,740						
	NET ASSETS			10,175						
	EQUITY									
	£1 Ordinary Shares			5,000	1					
	Share Premium			600	1					
	Retained Earnings			3,095	1					
	Revaluation Reserve (840 + 640)			1,480	1					
				10,175						
	All labels & heading (in bold) present, arithmetic accuracy and no extraneous items									
	1 mark (H/L/A/E)									
	TANGIBLE ASSETS	COST	AGG DEP	NBV						
		£000	£000	£000						
	Plant & Machinery									
	1 April Year 5	2,300	420	1,880						
	Disposal	300	170	130	(1 for line)					
	Depreciation		175	175	(1 for line)					
	Value 31 March Year 5	2,000	425	1,575	(1 for line)					
	Property	8,000	- 640	8,640	(1 for line)					
	TANGIBLE ASSETS TOTAL			10,215						

Question	Expected response(s)						Max mark	Additional Guidance
2A. (a)		January		February		March	3	
	Opening inventory	1,000		1,100		300	2	Award 1 mark for correctly entering January as 1,000; second mark for both February and March correctly entered.
	Production	4,600		5,000		5,100		
		5,600		6,100		5,400		
	Sales	4,500		5,800		5,000		
	Closing inventory	1,100		300		400	1	
2A. (b)	Marginal Costing Statement						10	Inventories are consequential on answer to part (a).
		January		February		March		
		£		£		£		
	Sales	252,000		324,800		280,000	1 for line	
	Opening inventory	38,000		41,800	*	11,400	*	* The closing inventory marks for Jan & Feb are for having both these and their corresponding opening inventories correct.
	Materials	36,800		40,000		40,800		
	Labour	119,600		130,000		132,600		
	Overheads	18,400		20,000		20,400		
		174,800	1**	190,000	1**	193,800	1**	** Where total variable overhead line is missing, or contains opening inventory figure, award mark for correct insertion of relevant individual data.
	Closing inventory	41,800	1	11,400	1	15,200	1	
	Production costs	171,000		220,400		190,000		
	Contribution	81,000		104,400		90,000	1 for line***	*** Lines must be labelled for marks to be awarded.
	Fixed costs	7,400		7,300		7,800	1 for line***	
	Profit	73,600		97,100		82,200	1 for line***	

Question	Expected response(s)						Max mark	Additional Guidance
2A. (c)	Absorption Costing Statement						15	Inventories are consequential on answer to part (a).
		January		February		March		
		£		£		£		
	Sales	252,000		324,800		280,000	1 for line	
	Opening inventory	39,500	1	43,450	**	11,850	**	
	Materials	36,800		40,000		40,800		
	Labour	119,600		130,000		132,600	1	
	Variable overheads	18,400		20,000		20,400		
	Fixed overheads	6,900	1	7,500	*	7,650	*1	*1 for Jan, 1 for Feb and Mar
		181,700		197,500		201,450		
	Closing inventory	43,450	**1	11,850	**	15,800	**1	**1 for Jan Cl Inv, 1 for Op In and Cl Inv in Feb and Mar
	Production costs	177,750		229,100		197,500		
		74,250		95,700		82,500	1 for line	
	Over/under	under		over		under	1 for line	Omission of a clear label as to under/over absorbed will accrue a maximum of 3 out of 4 marks.
		-500	1	200	1	-150	1	Accept figures without negative symbol or brackets only where under or over absorption is clearly stated.
	Profit	73,750	1	95,900	1	82,350	1	
	CPU working	£						
	Materials	8.00						
	Labour	26.00						
	Variable overhead	4.00						
	VC per unit	38.00						
	FC per unit (90,000/60,000)	1.50						
	TC per unit	39.50						

Question	Expected response(s)							Max mark	Additional Guidance
2A. (d)	Describe one advantage and one disadvantage of the Internal Rate of Return method of Investment Appraisal.								
	Advantages								Any 1 for 1 mark
	Considers the time value of money (1)								
	Considers all cash flows (1)								
	Simplicity in reflecting a project's profitability as a percentage, making comparisons easier (1)								
	Not necessary to select a required rate of return (1)								
	Disadvantages								Any 1 for 1 mark
	Cannot be used to compare projects of different sizes (1)								
	IRR doesn't consider the absolute scale of the investment or the total cash flows it will generate, (1)								
	therefore it can be confusing. (1)								
	Results can be misleading if cash flows are negative (1)								
	Calculations are difficult (1)								
	Can give more than 1 answer, depending upon range used (1)								

Question	Expected response(s)					Max mark	Additional Guidance		
2B. (a)	Total Labour Cost Var = (Labour Efficiency Var - Labour Rate Var)					2	1 mark for calculation		
							1 mark for favourable indication		
	£3,500 A = (Labour Efficiency Var - 15,500 A)								
	Labour Efficiency Var = 12,000 1 Favourable 1								
2B. (b)	Using Total Labour Cost Variance:					3			
	(Standard Rate × Standard Total Hours) - Actual Cost = Variance								
	Standard Hours = 8,000 units x 4 hours = 32,000 hours 1								
	£12 x 32,000 hours - Actual Cost = £3,500 A								
	£384,000 1 - Actual Cost = £3,500 A								
	Actual Labour Cost = £387,500 1								
2B. (c)	Using Labour Efficiency Variance:					2			
	Difference in Hours × Standard Rate = Variance								
	Difference in Hours = 12,000 F / £12 = 1,000 hours 1								
	As it is a favourable variance, Actual Hours are lower than Standard Hours								
	32,000 - 1,000 = 31,000 hours 1								

Question	Expected response(s)					Max mark	Additional Guidance		
2B. (d)	Actual Labour Rate = $\frac{\text{Actual Labour Cost}}{\text{Actual Labour Hours}}$					1			
	$\frac{£387,500}{31,000 \text{ hours}} =$	$£12.50$	1						
2B. (e)	Using VOH Expenditure Variance					2			
	$(\text{Actual Labour Hours} \times \text{VOH Rate}) - \text{Actual VOH Cost} = \text{Variance}$								
	$31,000 \times £8 - \text{Actual VOH Cost} = £7,750 \text{ F}$								
	Therefore:								
	$248,000 - \text{Act VOH Cost} = £7,750 \text{ F}$								
	$\text{Act VOH Cost} = £240,250$	$£240,250$	1						

Question	Expected response(s)					Max mark	Additional Guidance
3. (a)	Thomson plc					28	
	Contract Account for year ended 31 December Year 1						
		£000	£000	£000			
	Work certified			1,400	1		
	Work not certified			40	1		
				1,440			
	Materials on site 1 January	40					1 mark for materials on site 1 January and Materials sent to site
	Materials sent to site	125			1		
		165					
	Materials on site at 31 December	15	150		1		
	Materials from stores	27			1		
	Materials returned to stores	5	22		1		
	Sub-contracted direct material cost		8		1		
			180				
	Labour on site	287			1		
	Direct Wages owing	32	319		1		
	Direct expenses	28			1		
	Less paid in advance	4	24		1		
	PRIME COST		523		1*		* Award mark only if correctly labelled
	Plant on site 1 Jan Year 1	320			1		
	Less scrapped	5			1		
		315					
	Plant at 31 December	205					1 mark for Plant at 31 December and Depreciation on plant
	Depreciation on plant		110		1		
	Loss on sale of plant (5-2)		3		1		
	Hire of special equipment		25		1		
	Establishment charges		457		1		
	Architects fees (1,400 x 3%)		42		1		
	Insurance		62		1		
	Maintenance of plant		14		1		
	Overheads (180 x 5%)		9		2* All or nothing		* watch for consequentiality
	Indirect wages		28	1,273	1		
	NOTIONAL PROFIT			167			
	Transfer to Inc Statement (167 (1) x 1,400/2,000 (1))			116.90	2		
	Profit retained C/F (167 - 116.9)			50.10	1		
				167			
	L/A/E (1)						
3. (b)	Describe what is meant by the term 'establishment charges'.					2	
	Establishment charges cover preparing a contract site for the work to begin. 1						An example can be awarded a development mark.
	This may include acquiring access rights, building roads, installing power, water, drainage and communications, drainage and erecting site buildings. 1						Accept any other reasonable answer.

Question	Expected response(s)										Max mark	Additional Guidance
4. (a) (i)	Goodwill calculation										3	
	Percentage purchased	65%	x	40,000		=	26,000.00					
	Amount paid	£2	x	26,000		=	52,000.00	1				
	Value Taken Over	40,000	+	2,000	+	1,000	=	43,000.00				
		43,000	x	65%		=	27,950.00	1				
	Goodwill			52,000	-	27,950	=	24,050.00	1			
4. (a) (ii)	Non-controlling interest			43,000	x	35%	=	15,050.00	1	1		
4. (b) (i)	Post-acquisition profits									2		
	Balance @ Consol SFP date			8,480								
	Value @ acquisition			1,000								
	Profits			7,480				1				
	Percentage owned		x	65%	=	4,862.00	1					
4. (b) (ii)	Unrealised profits									2		
	Cost of Sales			2,100								
	Mark-up		x	50%	=	1,050.00	1					
	Selling price to Subsidiary					3,150.00						
	Profit					1,050.00						
	Goods unsold					60%	1					
	Unrealised profits					630.00						
4. (b) (iii)	Non-controlling interest @ Consol SFP Date											
	Value @ Consol SFP Date			50,480	x	35%		17,668.00	1	1		
4. (b) (iv)	Cash in Transit									1		
	Owed to Parent			3,200.00								
	Owed by Subsidiary			2,400.00								
	Cash in Transit			800.00			1					

Question	Expected response(s)										Max mark	Additional Guidance
4. (b) (v)	Retained Earnings										3	
	Holding Co Retained earnings							32,300.00				
	Post-acquisition profits						+	4,862.00	1			
	Unrealised profits						-	630.00	1			
	Goodwill written off			24,050	x	10%	-	2,405.00	1			
								34,127.00				

Question	Expected response(s)			Max mark	Additional Guidance
4. (c)	Consolidated Statement of Financial Position as at 31 December Year 4			15	
	Non-current Assets	£	£		
	Tangible (327,000+58,000)		385,000.00	1	
	Goodwill (24,050 - 2,405)		21,645.00	1	
			406,645.00		
	Current Assets				
	Inventory (22,400+9,700-630)	31,470.00		2	
	Trade Receivables (6,200+3,800)	10,000.00		1	
	Cash and Cash Equivalents (7,660+800-640)	7,820.00	49,290.00	2	
	Total Assets		455,935.00		
	Current Liabilities				
	Trade Payables (5,200+5,560)	10,760.00		1	
	Other Payables (960+420)	1,380.00		1	
		12,140.00			
	Non-current Liabilities				
	15% Debentures (50,000+12,000)	62,000.00		1	
	Total Liabilities		74,140.00		
	Net Assets		381,795.00		
	Equity				
	Ordinary Shares of £1 each		300,000.00	1	
	Share Premium		30,000.00	1	
	Retained Earnings		34,127.00	1	
	Non-controlling interest		17,668.00	1	
			381,795.00		
	Labels/no extraneous/arithmetic correct (L/E/A)			1	

Question	Expected response(s)			Max mark	Additional Guidance
4. (d)	Describe the purpose of a Statement of Cash Flow.			2	
	To show the actual movements of cash into and out of the business over the accounting period.			1	Any 2 for 2 marks.
	To supplement the Income Statement and Statement of Financial Position, as they do not provide sufficient information on movement of cash over the accounting period.			1	
	To show the increase or decrease in cash and cash equivalents.			1	
	Information on liquidity of the business.			1	
	Conforms with IAS1 and IAS7.			1	
	Assists stakeholders who make decisions, as it shows how cash is generated and absorbed.				
				1	

[END OF MARKING INSTRUCTIONS]